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DEPARTMENT OF TRANSPORTATION

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Memorandum

U.S. Department of
Transportation

Office of the Secretary
of Transportation

Office of Inspector General

FAA-00-7016-116

Subject: **INFORMATION:** FAA Response to OIG's Report on
Status Assessment of FAA's Cost Accounting System
and Practices (Report Number FI-2001-023)

Date: June 4, 2001

From: Kenneth M. Mead
Inspector General

Reply To
Attn Of:

To: FAA Administrator

We have reviewed FAA's May 17 response to our report entitled "Status Assessment of FAA's Cost Accounting System and Practices," dated February 28, 2001. We are pleased that FAA concurred with our recommendations and provided target completion dates, as we requested, for complying with the report's recommendations.

We understand that our February 28 report has been mentioned in the overflight fee litigation. Because of this, we would like to provide some clarification concerning our work on FAA's cost accounting system and overflight fees. Also, should this memorandum be used in conjunction with the litigation, we request that the entire memorandum be disclosed so that all of our work is shown in its proper perspective.

First, the objective of our work resulting in the February 28 report was to provide Congress with the status of FAA's cost accounting system and our results to date on specific assessment areas required by the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR-21). This work was not an audit of FAA's compliance with the overflight fee statute, and therefore should not be used as a basis to support or attack the overflight fees in the Interim Final Rule.

Second, prior to FAA establishing overflight fees in its Interim Final Rule, we performed an audit with the objective to review the process (not the fee) used by FAA to determine costs and aircraft activity for overflights (Report FE-2000-024, December 17, 1999). This audit was a review of Fiscal Year (FY) 1998 data, not the FY 1999 data that FAA used to compute overflight fees in the Interim Final Rule. In this work, we found improvements were needed in the cost accounting system and the procedures used to estimate overflight costs.

FAA agreed with our recommendations and made some improvements prior to computing its overflight fees. However, we did not audit the support and assumptions

for the FY 1999 data used to calculate the overflight fees in the Interim Final Rule. Therefore, our work should not be used as a basis to support or attack the validity of the overflight fees in the Interim Final Rule.

Finally, we performed an audit of the cost accounting system for FAA's Research and Acquisitions line of business in FY 2000. We found that Research and Acquisitions' FY 1999 costs required adjustment because they had been overstated due to an accounting error. We found the error after FAA published the Interim Final Rule. The adjustment lowered FY 1999 costs, which were the basis for the overflight fees in the Interim Final Rule. Accordingly, as part of the Final Rule, FAA should address the effect of the lower FY 1999 costs on the fees already charged.

We hope this puts our work in its proper perspective for all parties. If we can answer any questions or be of further assistance, please call me at 366-1959, or my Acting Deputy, Todd J. Zinser, at 366-6767.

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